

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AF-10 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-03 PRS-01 USIA-15 L-03 H-03 DRC-01

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P R 251621Z SEP 73

FM AMEMBASSY LONDON

TO AMEMBASSY NAIROBI PRIORITY

SECSTATE WASHDC 4222

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 02 LONDON 10985

DEPARTMENT PASS FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: U.K. PRESS ON C-20 AND IMF

SUMMARY: MAJOR ARTICLES ON MONETARY REFORM AND C-20 MEETING IN NAIROBI HIGHLY CRITICAL OF FAILURE OF EXPERTS TO MAKE PROGRESS, NOTING SIGNIFICANT IMPROVEMENT IN POLITICAL ATMOSPHERE WILL BE NECESSARY. END SUMMARY.

1. TIMES ARTICLE SEPTEMBER 25 BY PETER JAY DATELINED NAIROBI IS ENTITLED "MONETARY REFORM; HOW THE EXPERTS HAVE FAILED THE WORLD." JAY STATES CURRENT ATMOSPHERE IN UNCLASSIFIED

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NAIROBI IS THICK WITH MUTUAL RECRIMINATIONS AND ATTEMPTS

TO PASS THE BUCK FOR FAILURE. OFFICIALS BLAME MINISTERS FOR POLITICAL COWARDICE AND SHEER INTELLECTUAL INADEQUACY. AMERICANS BLAME THE EUROPEANS AND EUROPEANS BLAME THE FRENCH AND EVERYONE BLAMES THE AMERICANS.

2. JAY VIEWS THE ACID TEST OF A SYMMETRICAL MONETARY SYSTEM AS WHETHER IT WILL SUCCEED IN PREVENTING COUNTRIES FROM UNDERVALUING THEIR CURRENCIES AND TRYING TO RUN PERSISTENT SURPLUSES. U.S. WANTS TO BE SURE THAT OTHER COUNTRIES WILL NOT BE ABLE TO RUN PERSISTENT SURPLUSES. OTHER COUNTRIES WANT TO BE SURE THAT U.S. WILL NOT SWAMP THE WORLD WITH EXCESSIVE DEFICITS. FEW MONETARY OFFICIALS OUTSIDE THE U.S. REALLY BELIEVE THERE IS A PROBLEM OF COMPETITIVE DEVALUATION AND MERCANTILIST GROWTH POLICY. CYNICAL OBSERVERS BELIEVE AMERICAN INTENTION IS TO STALL THE NEGOTIATIONS UNTIL THE DOLLAR IS STRONG WHEN REFORM CAN BE SHELVED AND THE DOLLAR RESTORED TO ITS FORMER EMINENCE. JAY CALLS THIS A COMPLETE MISREADING OF TRUE AMERICAN DESIRE FOR A SYMMETRICAL SYSTEM IN WHICH DOLLAR IS AS FREE AS ANY OTHER CURRENCY TO FIND ITS OWN TRUE VALUE IN WORLD CURRENCY MARKETS. IN ADDITION TO MUCH HARD WORK, WHAT HOLDS UP MONETARY REFORM IS LACK OF RECOGNITION OUTSIDE THE U.S. THAT PRESSURES ON SURPLUS COUNTRIES MUST BE AT LEAST AS STRONG AND AUTOMATIC AS SETTLEMENT OBLIGATIONS OF DEFICIT COUNTRIES. MAJOR IMPROVEMENT IN POLITICAL ATMOSPHERE WILL BE NECESSARY FIRST.

3. FINANCIAL TIMES ARTICLE BY IAN DAVIDSON ENTITLED "POLITICAL DEADLOCK ON MONETARY CHANGES" IS HIGHLY CRITICAL OF U.S. WHAT WENT WRONG? FACT OF MATTER APPEARS TO BE THAT AFTER JULY MEETING IN WASHINGTON, AMERICANS DECIDED THAT THEY DID NOT WANT AN AGREEMENT JUST YET AND HAVE STONEWALLED EVER SINCE. ONLY OPTIMISTIC DELEGATION LEADER IN NAIROBI IS U.S. TREASURY SECRETARY SHULTZ. U.S. SEES ALL ELEMENTS OF MONETARY REFORM AS CLOSELY INTERRELATED. OTHER COUNTRIES DO NOT. EUROPEAN

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EXPLANATIONS FOR HARD U.S. POSITION INCLUDE TESTING STRENGTH OF EUROPEAN INSISTENCE ON TRADE-MONETARY LINK; DESIRE TO HOLD UP MONETARY REFORM AND CONVERTIBILITY OBLIGATION UNTIL THERE IS SUSTAINED IMPROVEMENT IN U.S. BALANCE OF PAYMENTS; AND DECISION NOT REPEAT NOT TO ACQUIESCE IN ENDING DOLLAR STANDARD, THEREBY DELAYING REFORM NEGOTIATIONS UNTIL DOLLAR HAS REGAINED SOME OF ITS FORMER CREDIBILITY AS A RESERVE ASSET. CURRENT C-20 NEGOTIATIONS ARE DEEMED UNREAL.

4. BEYOND THIS, REAL PROBLEM IS POLITICAL, INCLUDING POOLING OF DECISIONMAKING ON QUESTIONS WHICH WILL AFFECT NATIONAL ECONOMIC POLICIES. EUROPEANS ARE READY TO GO FURTHER IN THIS DIRECTION THAN THE AMERICANS. MAIN UNCLASSIFIED

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THRUST OF U.S. APPROACH IS INSISTANCE IN AUTOMATICITY IN EXCHANGE RATE CHANGES AND WATERTIGHT RULES, WHICH WILL MINIMIZE NEED TO TRANSFER DECISIONMAKING POWERS TO THE IMF.

5. DAVIDSON SAYS U.K. DELEGATION AND CHANCELLOR BARBER ARE DISMAYED AT THE DEADLOCK ON MONETARY REFORM, WHICH THE CHANCELLOR HAS SPEARHEADED. QUOTE MR. SHULTZ MAY BE RIGHT IN CLAIMING THAT MONETARY REFORM GLASS IS HALF FULL NOT HALF EMPTY, BUT IN NAIROBI THIS WEEK, HE HAS

WON NO NEW FRIENDS IN THE BRITISH TREASURY. END QUOTE.

6. WITTEVEEN SPEECH APPARENTLY REPORTED FACTUALLY, SEEN
AS AN APPEAL FOR PROGRESS ON REFORM.

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